



AB 1765 Final Analysis - The 2003 Budget Act

**August 20, 2003
SENATE REPUBLICAN
FISCAL OFFICE**



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Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

AB 1765 – The 2003 Budget Act Final Report

August 20, 2003

Overview

Dollars in Thousands

<i>Fund</i>	<i>Governor's Budget As Revised</i>	<i>Legislative Changes</i>	<i>Vetoed</i>	<i>Budget Totals</i>
General Fund	\$70,432,740	\$705,238	-\$1,014	\$71,136,964
Special Funds	24,124,966	-3,587,063	0	20,537,903
Bond Funds	7,463,880	50,812	-46,154	7,468,538
Federal Funds	52,570,774	2,943,029	-625	55,513,178
Total	\$154,592,360	\$112,016	-\$47,793	\$154,656,583

The Budget Act of 2003 (AB 1765, Chapter 157) authorizes General Fund spending of \$71.1 billion in fiscal year 2003-04. This does not reflect any changes that may be made to current-year spending as a result of remaining budget proposals that will be considered in the last month of Session. Although the 2003 Budget Act does not raise taxes, it does rely on revenue projections that include higher vehicle license fees. The Proposition 98 Minimum Guarantee is fully funded. Based on current projections, there will be a year-end reserve of \$1.8 billion. According to the Legislative Analyst, the effect of the Budget Act and related legislation would be to reduce the projected deficit at the end of 2004-05 to \$7.9 billion, the same level proposed in the May Revision to the Governor's Budget.

To help close the deficit, the Governor proposed to reduce General Fund expenditures by increasing a variety of fees. These increases are displayed in Appendix 1.

Education

Proposition 98 Overview. As indicated in Table 1, the Budget Act provides \$45.7 billion in constitutionally mandated Proposition 98 funding for K-12 schools and community colleges for 2003-04. This represents a \$1.8 billion (or 4.0 percent) increase over the May Revision to the Budget Act of 2002. The 2003 Budget Act increases total funding for K-12 education (from all sources) from \$54.5 billion in 2002-03 to \$55.8 billion in 2003-04. This equates to a 2.3 percent year-over-year increase. As is indicated in Table 2, the Proposition 98 per-pupil funding level is decreasing year over year by \$180. However, due to increases in federal and other funding sources, the **total** per pupil funding level for California public school students will **increase** by \$72 per pupil in 2003-04.

**Table 1
K-14 Overview**

(Dollars in Thousands)

2002-03	May Revise	2003 Budget Act	Change
Proposition 98			
General Fund	\$29,336,823	\$29,257,719	-\$79,104
Local Revenue	14,612,403	14,612,403	0
Total Guarantee	\$43,949,226	\$43,870,122	-\$79,104
2003-04	May Revise	2003 Budget Act	Change
Proposition 98			
General Fund	\$29,728,383	\$29,868,131	\$139,748
Local Revenue	15,875,526	15,845,526	-30,000
Total Guarantee	\$45,603,909	\$45,713,657	\$109,748

**Table 2
Per-Pupil Spending**

(In Actual Dollars)

Budget Year	Prop 98 Per Pupil	Total Funding Per Pupil
2001-02	\$7,009	\$8,846
2002-03	\$7,067	\$9,227
2003-04	\$6,887	\$9,299

Recently Passed Legislation Lowered the Proposition 98 Minimum Funding Level. In June, as part of ongoing efforts to ensure education funding is provided at the level required by the Proposition 98 Guarantee, the Legislature passed SB 1040, which deferred 2002-03 Proposition 98 expenditures by \$80 million. Since part of the calculation of the Proposition 98 Minimum Guarantee is based upon previous-year expenditures, this bill also resulted in an \$82 million reduction in the Proposition 98 Guarantee for 2003-04, and an \$84 million reduction in the Guarantee for 2004-05. Thus, SB 1040 reduced the three-year need for Proposition 98 General Fund by \$246 million. Additionally, related trailer bill legislation (AB 1054) expresses intent that the mid-year adjustments to Proposition 98 funding ensure that it does not exceed the Minimum Guarantee.

School District Revenue Limit Reduction and Reserve Funding Flexibility. Revenue Limit Funds are the main general-purpose General Fund the state provides to school districts. The Governor's January 10 budget proposed a 2.15 percent reduction in school district revenue limit funding. The Governor's May Revision and the Budget Act lower the revenue limit reduction to 1.2 percent.

The Budget Act assumes education trailer bill AB 1754 (enrolled) will be signed into law. This bill will allow all of the school districts in the state to tap into their budget reserves and maintenance accounts to reduce the budgetary impact of the 1.2 percent revenue limit reduction in the 2003-04 fiscal year. AB 1754 proposes the following options for addressing the reduction:

- School districts will be allowed to lower the level of budget reserves for economic uncertainties to one half of the currently required percentage (School districts are currently required to maintain a reserve balance of 1 to 5 percent of their general fund budget.)

- School districts will be allowed to reduce the amount of reserve funding required for maintenance purposes from 3 percent to 2 percent of district general fund.
- School districts will be allowed to tap categorical program “ending balances” to meet budget needs.

This proposal will offer school districts a significant degree of flexibility, and will give them the additional flexibility they may need to address the difficult budget choices they face.

The Budget Act will Continue the 2002-03 Deferral. The Budget Act proposes to continue a \$1.16 billion deferral in education funding from 2003-04 into 2004-05. In an effort to ensure that federal special education maintenance-of-effort requirements are adhered to, The Budget Act accepts the Administration’s proposal to swap a deferral of special education funding for deferrals in School Safety, Targeted Instruction Improvement Grants (desegregation), and Home-to-School Transportation funding. The omnibus education trailer bill (AB 1754) states that it is the intent of the Legislature to phase out the deferral “when the state’s fiscal condition permits” in conjunction with the reduction of the Proposition 98 maintenance factor.

The Budget Act Abandons Across-the-Board Cuts in favor of Targeted Reductions. The Budget Act rejects the block grant proposal contained in the January Governor’s Budget proposal, and it abandons the across-the-board reductions proposed in January, instead making up most of the reductions with targeted reductions that either reduce or eliminate funding for “lower priority categorical programs.” Table 3 displays the major programs proposed for reduction.

Table 3

Major Targeted Reductions in K-12 General Fund Savings	
(Dollars in Millions)	
Equalization	\$250
Instructional Materials	221
Deferred Maintenance	129
Defer Mandates	125
Teaching as a Priority	89
Summer School	85
Supplemental Grants	80
Peer Instruction and Review	52
School Improvement	42
Elementary Intensive Reading	31
Miller-Unruh Reading	<u>29</u>
Total Reduction	\$1,133

As is evident in the Table, Equalization funding is the top categorical program reduction proposed in the Budget Act. This reduction was proposed by the Governor in his May Revision.

The targeted reductions proposed by the Governor and incorporated into the Budget Act include a 56-percent reduction in funding for instructional materials and a 29-percent reduction in funding for supplemental grants. These programs provide an important source of revenue for schools throughout the state, and these reductions will likely have a direct impact on the provision of services to students and classroom instruction.

K-12 Basic Aid District Funding Reduction. The Budget Act rejects the Governor’s January proposal to redistribute \$126.2 million in basic aid district property tax funding. Instead, it reduces the amount of categorical funding provided to basic aid districts by \$9.8 million. This equates to a 1.198-percent reduction for Basic Aid districts, and it is consistent with the overall revenue limit reduction of

1.2 percent required of non-Basic Aid districts. Basic Aid school districts draw significantly less General Fund from the state than non-Basic Aid districts, and the reduction proposed in the Budget Act is much more reasonable than the \$126.2 million reduction initially suggested by the Administration.

K-12 Special Education Mental Health Services. The Budget Act includes \$69 million in federal funds to provide mental health services for special education pupils. These services have traditionally been funded through the state mandate process in the Department of Mental Health budget. The January Governor's Budget would have deferred funding for these services, currently estimated at over \$120 million annually. The amount included in the Budget Act is less than current claims for these mandated services; however, given that funding for other mandates is being deferred, the proposal to provide \$69 million in federal funds for these services is reasonable.

The California State Library - Further Reductions for Local Government. The Budget Act reduces state General Fund support to local public libraries to \$15.8 million, which equates to a 50-percent reduction from the Budget Act of 2002, and a 72-percent reduction from the \$56.9 million provided in 2000-01.

Child Care. The Budget Act reduces expenditures by \$384 million General Fund by implementing several childcare reforms, listed in Table 4. The Budget fully funds caseload for California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 2 and Stage 3 childcare programs.

Table 4

2003-04 General Fund Savings in Subsidized Child Care

(Dollars in Millions)

Reduce After School Program	\$ 7
Reduce Provider Regional Market Rates	82
Decreased CalWORKs Stage 3 Caseload	57
Eliminate Services for Families Exceeding Income Limit	7
Decreased State Preschool Caseload	10
Limit Services to Children Under 13 Years of Age	16
Use one-time additional Proposition 98 funding	36
Use one-time TANF federal funding for Stage 2	119
Use one-time TANF carryover federal funding	18
Use one-time CCDF federal funding	15
Reduce Alternative Payment Provider Rate by 1 Percent	12
Eliminate Quality Improvement Technical Assistance	<u>5</u>
Totals	\$384

Higher Education

In the Spring of 2000, the Governor negotiated a Higher Education Partnership Agreement (Partnership) with the University of California and the California State University. This Partnership promised 5-percent annual increases for the universities. The Budget Act does not provide funding increases as called for in the Partnership.

The Budget Act funds enrollment growth of about 7 percent for both the University of California (UC) and the California State University (CSU) system, at a cost of \$268 million. However, the Budget Act also has intent language that will call for no enrollment growth or cost-of-living increases for UC and CSU in 2004-05.

University of California

In January, the Governor's Budget proposed a General Fund base reduction of \$373 million for the UC. The Budget Act contains an additional \$98.5 million unallocated General Fund reduction. It also reduces the operations budget for UC Merced by \$4 million, and delays the opening date for that campus one year beyond what was proposed by the Administration (from 2004 to 2005). Reductions contained within these totals include:

- \$76 million for academic and institutional services;
- \$29 million for research;
- \$33.5 million for UC Outreach Program; and
- \$15 million for the Subject Matter Projects professional development program.

The Budget Act also reduces funding for the Digital California Project by \$6.6 million, and eliminates \$1.3 million in funding for the Community Teaching Internships.

California State University

In January, the Governor's Budget proposed a \$326 million General Fund base reduction for the CSU. The Budget Act reduces the CSU General Fund by an additional \$84.5 million. Reductions contained within these totals include:

- \$59 million in academic and institutional support services;
- \$53 million in student services; and
- \$12.5 million for CSU Outreach Programs.

California Community Colleges

The Budget Act includes:

- A \$200 million General Fund reduction by deferring payments for apportionments and Partnership for Excellence to 2004-05;
- A \$110 million General Fund reduction by increasing the student fee from \$11 per unit to \$18 per unit;
- An \$86 million General Fund reduction to apportionments and categorical programs;
- A \$25 million General Fund reduction to reduce fraud in concurrent enrollment;
- A \$38 million General Fund redirection from the Partnership for Excellence program to financial aid outreach for a media campaign (\$3.8 million) and increased staff (\$34.2 million); and
- Budget bill language requiring the Chancellor to allocate the remaining \$25 million concurrent enrollment reduction proportionate with concurrent enrollment full-time equivalents reported by each district.

Other Education Agencies

Consolidation of the California Student Aid Commission and the California Postsecondary Education Commission. The Student Aid Commission (CSAC) administers the Cal Grant and other student aid programs. The Governor's May Revision proposed to consolidate the activities of the California Postsecondary Education Commission (CPEC) with those of CSAC pursuant to separate legislation. The Budget Act rejects that proposal. In addition, pursuant to the agreement memorialized in SB 28X (Chapter 10, Statutes of 2003), the Budget Act contains an unallocated \$10 million General

Fund reduction in the Cal Grant program. This final reduction is contained within a \$20 million unallocated program reduction proposed by the Administration in the May Revision.

Resources, Energy, Environment, and Public Safety

Resources and Environment

Fee increases. The Budget Act augments and establishes a variety of new environmental regulation fees on businesses, some with General Fund impact. Table 5 below displays the fee increases included in the Budget Act or related trailer bills.

Note: Trailer bills to implement most of these fee increases will be set for a Senate Floor vote in August.

Table 5

Resources, Energy and Environment Proposed Fee Increases		
(Dollars in Thousands)		
Fee Description	2003 Budget Act	General Fund Impact?
Air pollution permitting fee	14,400	Yes
Waste water discharge permitting*	20,422	Yes
Pesticide permitting/licensing & examination**	6,300	Yes
Dam safety fee	7,200	Yes
Earthquake insurance policy fee	884	Yes
Fishing, hunting license	2,186	Yes
Park use fee	20,000	Yes
Power plant siting & annual fee -- \$100,000 to \$450,000 per siting; and \$15,000 annual fee	615	Yes
Water rights fees -- \$110 to \$36,000 per permit; \$100 to \$30,000 per license	4,399	Yes
Mining operations reporting fee -- doubles fee to \$4,000; increases collection cap from \$1 million to \$3.5 million	2,500	No
Fire protection fees on state responsibility areas*	52,500	Yes
Timber fee equal to 4-percent of the total timber yield	10,000	Yes
CALFED water user fee	Unknown	Yes

* These fees are currently included in the Budget Act but will be reconsidered in August.

** This represents the annualized amount of the fee increase. The actual increase for 2003-04 will be less because of half-year implementation.

Secretary for Resources. The Budget Act eliminates General Fund support for a savings of \$1.3 million.

Secretary for Environmental Protection. The Budget Act reduces General Fund support for a savings of \$879,000.

Beverage Container Recycling Fund loan. The Budget Act loans \$98.3 million from the Beverage Container Recycling Fund to the General Fund.

Flood Control Subventions. The Budget Act provides \$116 million to local governments for flood control projects. This expenditure will be reflected as a prior-year adjustment (for budgeting purposes), but will not hinder access to the funds.

Colorado River Board. The Budget Act eliminates General Fund support for a savings of \$192,000.

Department of Forestry and Fire Protection. The Budget Act adopts most of the Governor's proposals, including a \$750,000 reduction related to closing 22 lookout stations.

Department of Parks and Recreation. The Budget Act adopts the Governor's proposal to reduce funding for California parks by \$15 million General Fund.

Proposition 50. The Budget Act appropriates \$1.16 billion from Proposition 50 funds for fiscal year 2003-04, which is slightly higher than the amount proposed in January. The funds are proposed for local grants as well as state water-related activities. Combined with current-year expenditures and state administration costs, this leaves approximately \$2 billion of the \$3.44 billion remaining for appropriation in subsequent years.

Proposition 40. The Budget Act adopts the Governor's proposal to appropriate \$128.4 million in bond funds for cultural and historical endowment grants.

Energy

Energy Funds Loaned and Transferred to the General Fund. The Budget Act augments the Governor's proposal to borrow or transfer monies from various energy funds to help close the General Fund deficit. These loans and transfers will temporarily help in the state's fiscal crisis, however, the availability of excess funds in these areas suggests that ratepayer surcharges should be reduced in the future. The specific proposals are as follows:

- \$150 million loan from the California Teleconnect Fund – These funds are used to provide discounts on telecommunications services to qualifying schools, libraries, community-based organizations, etc. The Governor indicates that the program has been underutilized and this loan will have no programmatic impact;
- \$20 million loan from the Public Interest, Research, Development and Demonstration Fund – These funds provide grants to public and private entities for research and development of various energy resources and integration;
- \$7.75 million transfer from the Energy Resources Program Account (an increase of \$6.8 million above the Governor's proposal) – Revenues are derived from a \$0.0002 surcharge per kilowatt-hour and are used to support the operations of the Energy Commission. This transfer will necessitate an increase in the surcharge to \$0.0003 per kilowatt-hour; and
- \$1.6 million transfer from the Local Government Geothermal Resources Development Account (an increase of \$580,000 above the Governor's proposal) – These funds provide grants and loans to local and private entities for research on geothermal energy sources.

Clean Air Incentive Funds for the Central Valley. The Budget Act includes a one-time allocation of \$6 million (Renewable Resources Trust Fund) in incentives for biomass plants to dispose of agricultural waste through clean burning methods rather than burning it in open fields.

Public Safety

Department of Corrections (CDC). Notwithstanding continued legislative criticisms of the Department's operations and ongoing structural budget deficiencies, The Budget Act adopts virtually all of the Administration's budget proposals. However, in an effort to capture approximately \$120 million of additional General Fund savings, the Budget Act includes the following proposals:

- **Drug Treatment Furlough.** This proposal would allow CDC to accelerate its in-prison drug treatment program by placing non-violent and/or non-serious inmates in community residential drug treatment programs 120 days prior to parole. According to CDC, Penal Code Section 6258.1 currently provides the authority for these placements, and this proposal is estimated to save \$20 million in 2003-04 and \$61 million in 2004-05 through reduced inmate population levels.
- **Restructure Education and Vocational Training Programs.** This proposal would restore and augment existing education programs in the institutions and create new programs in the Reception Centers to allow more inmates to earn the current 2:1 education credits, thereby reducing their time in prison and possibly reducing current statewide recidivism rates. This proposal is estimated to save \$28 million in the 2003-04 fiscal year, and \$51 million in 2004-05.
- **Increase Training Academy Slots.** This proposal would increase the number of cadet slots at the Academy by 640 in order to reduce on-going institutional overtime costs, for an estimated savings of \$4.6 million in 2003-04.
- **Eliminate Community Correctional Facility (CCF) Contracts.** This proposal would eliminate funding for the McFarland, Mesa Verde, and Eagle Mountain CCF's, for a savings of \$400,000.
- **Mentally Ill Parolees.** This proposal would expand existing pre-release planning and enhanced community treatment services for mentally-ill parolees in an effort to provide services to an additional 5,250 parolees. The proposal estimates population savings of \$10.3 million in 2003-04 due to parolees spending more time on parole and less time in prison as a result of a parole violation that returns the parolee to custody.
- **Reduced Recidivism through Pre-release Planning and Re-entry Programs.** This proposal would provide greater pre-release planning to facilitate community re-integration and use new risk assessment tools to more accurately target parole resources. The proposal assumes a 5-percent reduction in parole violations that result in a return to custody and saves an estimated \$7.9 million in 2003-04.
- **Substance Abuse Treatment and Control Units (SATCU) / Community Detention.** As an alternative to returning the parolee to custody/prison, these two proposals would require the Parole Division to develop and implement new sanctions for parole violators based on the actual violation and underlying public safety risk of the parolee. The parolee would be allowed to participate in the alternative sanctions on a one-time basis and the proposals are estimated to save \$50.4 million in 2003-04 and \$100.8 million in 2004-05 due to lower inmate population levels.

State Criminal Alien Assistance Program (SCAAP) Funds. Notwithstanding the fact that the federal State Criminal Alien Assistance Program has expired, the Budget Act assumes that the state will receive \$133.9 million in federal funds for the costs of incarcerating undocumented immigrants in the 2003-04 fiscal year. Should these funds fail to materialize, the General Fund reserve will be reduced by a like amount.

Department of the Youth Authority. The Budget Act adopts the Administration's proposal to add an inflation adjustment to the Sliding Scale Fee, which will increase charges to counties by approximately \$6 million annually, with a corresponding savings in the General Fund. In addition, the Budget Act includes \$621,000 in General Fund savings due to the closure of the male portion of a Youth Facility in Ventura.

Board of Corrections. The Budget Act includes a General Fund savings of approximately \$16 million due to the elimination of partial reimbursements to local correctional officers for voluntary compliance with various training mandates. However, SB 1044 proposes to restore this reimbursement.

Commission on Peace Officers Standards and Training (POST). The Budget Act adopts the Administration's request to reinstate \$25.5 million from the Peace Officers Training Fund in order to partially reimburse local law enforcement agencies for costs associated with Peace Officer training.

Commission on Correctional Peace Officers' Standards and Training (CPOST). The Budget Act includes an unallocated reduction of \$1.1 million, or 50-percent, to CPOST.

Office of Criminal Justice Planning (OCJP). The Budget Act *includes six months of funding on the assumption that the Office of Criminal Justice Planning will be abolished on January 1, 2004.* Additionally, the Budget Act includes a new Control Section 25.00 stating legislative intent that the OCJP's juvenile justice programs shall be transferred to the Board of Corrections; law enforcement programs shall be transferred to the Office of Emergency Services; and victims' services shall be transferred to the Victim's Compensation and Government Claims Board or another appropriate entity. The Control Section also requires the Department of Finance to submit a plan, no later than October 1, 2003, to the Joint Legislative Budget Committee for restructuring these functions and for abolishing the OCJP by January 1, 2004. Finally, the Control Section appropriates \$130.4 million (\$25.6 million from the General Fund) to the Director of Finance for allocation to the successor entities that assume the various programs following the abolishment of OCJP. If the Director allocates all funds appropriated, the elimination of OCJP will result in a net General Fund savings of approximately \$400,000.

The Budget Act also includes the following program reductions:

- Reduces funding for the Central Valley's California Multi-jurisdictional Methamphetamine Enforcement Team (CAL-MMET) Program by \$5.5 million and adopts budget bill language that requires agencies to have a drug-endangered children program as a condition for receiving funding. This reduction leaves \$9.5 million for program activities; and
- Consolidates five vertical-prosecution programs into one block grant, and reduces funding by 50 percent, for a General Fund savings of approximately \$8.2 million. The five vertical prosecution programs are: (1) Elder Abuse; (2) Child Abuse; (3) Statutory Rape; (4) Major Narcotic Vendors; and (5) California Career Criminal.

Office of the Inspector General (OIG). The Budget Act includes a \$5 million General Fund reduction to the OIG.

California Highway Patrol (CHP). The Budget Act rejects the Governor's proposal to create a new Public Safety Surcharge on intrastate telephone calls that was estimated to generate approximately \$600 million when fully implemented. As a result, the CHP's budget will reflect an unallocated reduction of approximately \$100 million.

Health, Human Services, Labor & Veterans' Affairs

Health

Medi-Cal

Reduces Reimbursements to Medi-Cal Providers. The Budget Act includes a 5-percent rate reduction primarily for physicians, pharmacies, and managed care plans effective January 1, 2004. This will generate \$115.1 million in General Fund savings in fiscal year 2003-04 over a six-month period. Certain providers have been specifically exempted from this rate reduction: long-term care facilities, such as nursing homes and intermediate care facilities for the developmentally disabled; hospital inpatient and outpatient services, including state hospitals and developmental centers; adult day health care centers; clinical laboratories; and federally qualified health clinics and rural health clinics. The 5-percent rate reduction will apply to various non-Medi-Cal providers: California Children's Services (CCS); Genetically Handicapped Persons Program (GHPP); Breast and Cervical Cancer Early Detection Program; Family PACT; and State-Only Family Planning. The Budget Act rejects the Governor's proposal to cut Medi-Cal provider rates by 15 percent effective October 1, 2003, which would have generated budget-year savings of \$814.1 million (\$404.3 million General Fund).

Rejects Elimination of Optional Benefits. The Budget Act retains all 34 optional Medi-Cal benefits currently available in California. Dental and hearing aid benefits will be reduced through cost-containment measures, and savings will be achieved with rental, rather than purchase, of some durable medical equipment. The Budget Act rejects the Governor's proposal to eliminate some of the Medi-Cal benefits California provides that are optional under federal law, which would have generated budget-year savings of \$419.4 million (\$209.7 million General Fund). In January, the Governor proposed eliminating 18 of the 34 optional benefits, for savings of \$723.7 million (\$361.8 million General Fund); however, in his May Revision, the Governor restored four of these benefits – Non-Emergency Transportation, Hospice, Prosthetics, and Orthotics. The Administration has reinterpreted federal law and now classifies Non-Emergency Transportation and Hospice as mandated services.

Rejects an Eligibility Roll-Back for the Aged, Blind, and Disabled. The Budget Act rejects the Governor's proposal to limit eligibility for no-cost Medi-Cal to those aged, blind, and disabled persons with income at or below the SSI/SSP level (i.e., just over 100 percent of the federal poverty level). The Governor's proposal would have affected slightly over 54,000 individuals, many of whom would continue to qualify for Medi-Cal with a share of cost. The Budget Act of 2000 extended eligibility to individuals up to 133 percent of the federal poverty level.

Rejects the Moratorium on Adult Day Health Centers and Imposes a New Licensing Fee. The Budget Act rejects the Governor's proposal and, instead, adopts an alternative approach that will permit continued expansion of this program. The alternative approach includes a "pre-certification process," a "managed-growth" concept, and a *new fee* (initial application fee of \$5,000 and renewal fees of \$20 per person, based on licensed capacity). These fees would generate approximately \$800,000 per year in additional revenues. The Governor had proposed a 12-month moratorium on the certification of new adult day health centers effective October 1, 2003, and did not provide any exemptions to this moratorium for applicants whose certification is pending and who may have made a significant financial investment on the assumption certification would be approved. In addition, the Governor proposed to "unbundle" the existing daily rate and require prior authorization for therapy and transportation services. This combination of changes would have resulted in budget-year savings of \$19.7 million (\$9.85 million General Fund).

Adopts the Governor's Add-Backs. The Budget Act approves funding restored in the Governor's May Revision to support the continued expansion of the 1931(b) Program and to rescind implementation of the 100-hour work rule. This will increase costs in the budget year by \$107.4 million (\$53.7 million General Fund). In January, the Governor proposed to rollback the expansion approved

in the Budget Act of 1999 that expanded eligibility for the Section 1931(b) Medi-Cal Program to families with incomes up to 100 percent of the federal poverty level, regardless of how many hours the principal wage earner worked each month. It is estimated that over 650,000 parents on the Section 1931(b) Program in fiscal year 2002-03 did not meet the unemployment requirement in place prior to the expansion.

Approves the Baseline Medi-Cal Estimate. By approving the baseline estimate for Medi-Cal, the Budget Act approves funding for abortions, a variety of state-only programs that serve illegal aliens, and a number of legislative mandates that were passed on a majority vote.

Restores the Supplemental Wage Rate Adjustment Program. The Budget Act includes \$46 million General Fund to cover the cost of providing wage supplements to the employees of specific types of providers in fiscal years 2002-03 and 2003-04. This program had been eliminated retroactively by SB 26X, which was part of a package of bills associated with the Pension Obligation Bond. The Budget Act of 2001 authorized an annual Supplemental Wage Rate Adjustment Program. The Department of Health Services (DHS) was required to provide a supplemental rate adjustment (up to 8 percent of per diem labor costs) to the Medi-Cal reimbursement rate for specific nursing facilities, intermediate care facilities, and pediatric subacute units that have a collectively bargained contract (or comparable, legally binding commitment) to increase salaries, wages, or benefits for nonmanagerial, nonadministrative, noncontract staff. DHS was also authorized to inspect relevant payroll and personnel records and to retroactively recover funds from facilities that had not met their wage increase commitments. When SB 26X eliminated this program, no funds had ever been disbursed under this program; however, some providers reported that they granted wage and benefit increases based on this statute and were fully expecting to be reimbursed. Unions, such as SEIU, took the position that they had negotiated agreements with some nursing homes and expected the negotiated wage and benefit increases to be implemented despite the elimination of this program.

Expands the CHDP Gateway and Other Medi-Cal Entitlements. The Budget Act approves \$74.5 million (\$35.8 million General Fund) to have the Child Health Disability Prevention (CHDP) Program serve as a "Gateway" for enrolling children into either the Healthy Families Program or Medi-Cal. The CHDP Gateway effort will be facilitated by two additional Express Lane Eligibility program expansions: (1) 3,905 children receiving free school lunches will automatically be enrolled in Medi-Cal, at a budget-year cost of \$3.5 million (\$1.7 million General Fund); and (2) 5,967 parents and children who receive food stamps will be provided with enrollment materials for Medi-Cal and the Healthy Families Program, for a budget-year cost of \$7.7 million (\$3.9 million General Fund). The Budget Act also approves a further expansion of the CHDP Gateway that will automatically enroll newborns, at an increased budget-year cost of \$785,000 (\$196,000 General Fund).

Approves Funding for Further Entitlement Expansions. The Budget Act includes funding to expand the Medi-Cal entitlement to additional children. These expansions include \$486.6 million (\$243.3 million General Fund) to provide 12 months of Continuous Eligibility for 471,500 children and \$8.3 million (\$4.2 million General Fund) to fund Accelerated Enrollment through the Single Point-of-Entry, which will entitle 51,304 children to two months of fee-for-service, full-scope, no-cost Medi-Cal on a presumptive-eligibility basis. It is estimated that these children will subsequently be determined ineligible.

Includes Funds to Hire Additional Nurses. The Budget Act includes funding to establish 71 permanent, full-time Nurse Evaluator II positions effective January 2004, at a budget-year cost of \$3.5 million (\$885,000 General Fund) and on-going annual costs of \$6.9 million (\$1.7 million General Fund). The Department of Health Services (DHS) currently contracts with private nurses for the work that will be transferred to state staff, and the budget assumes the state will save \$115,000 General Fund by using state nurses. Given the severe nurse shortage in this state and across the nation, it is unclear how DHS will successfully recruit such a high number of new nursing staff.

Funds a New Fraud Initiative. The Budget Act includes \$5.9 million General Fund for 161.5 positions, and projects budget-year General Fund savings of \$21.4 million. The Governor had requested an additional 315 state staff positions at a cost of \$27 million (\$10.7 million General Fund) to perform additional Medi-Cal anti-fraud activities, and had projected future annual savings of over \$290 million (\$145 million General Fund) once this anti-fraud effort was fully implemented.

Encourages the Private Sector to Go After Medi-Cal Fraud. The Budget Act includes a provision to determine the viability of contracting with business entities to identify Medi-Cal fraud and to recover payments owed to the state for such fraudulent activities.

Imposes a Quality Improvement Assessment Fee on Health Care Providers. The Budget Act approves the assessment of a new fee of 6 percent on Managed Care Plans based on their gross annual receipts (Medi-Cal line-of-business only) effective January 2004. This fee is quite different than other fee increases proposed by the Governor in that, after the state withholds 25 percent, it will be used to draw down matching federal funds and will be returned to these providers in the form of a rate increase. The fee is expected to generate \$150 million in revenue in the budget year. The state will withhold \$37.5 million, most of which will be deposited into the General Fund. With federal matching funds, the net increase in funding to managed care plans will be \$75 million. This same type of fee transaction will also apply to Intermediate Care Facilities for the Developmentally Disabled (ICF-DDs) effective October 1, 2003, and will generate General Fund savings in the budget year of \$14.6 million.

Funds Counties to Improve Program Administration. The Budget Act assumes General Fund savings of \$194 million by imposing performance standards on County Welfare Departments to process eligibility redeterminations in a more timely manner. These savings are offset by an increase of \$50 million in funding provided to the counties to meet the new workload standards.

Institutes Semi-Annual Reporting. The Budget Act assumes \$21 million in General Fund savings from enacting a semi-annual reporting process to verify Medi-Cal eligibility of adult beneficiaries. The Governor had proposed to reinstitute quarterly status reports, which would have generated significantly more savings.

Shifts Some Medi-Cal Costs to Private Insurance. The Budget Act projects General Fund savings of \$6.2 million in the Medi-Cal Program from disenrolling children who could receive health care coverage through their non-custodial parent. These savings would be offset by increased costs of \$1 million for the Department of Child Support Enforcement to implement this program.

Changes Accounting Methodology. The Budget Act achieves one-time savings of \$930 million General Fund by shifting the budgeting for Medi-Cal benefits from an accrual to cash basis.

Suspends Next Year's COLA for Long-Term Care Facilities. General Fund savings of \$64 million are assumed for fiscal year 2004-05 if the annual rate adjustment (projected to be 3.8 percent) for nursing homes and intermediate care facilities is suspended. This rate freeze would also apply to adult day health centers.

Directs Various Other "Budget Year + 1" Cuts. In fiscal year 2004-05, General Fund savings are assumed from freezing rates for Medi-Cal inpatient hospital costs (\$70 million) and the Healthy Families Program (\$9.6 million).

Public Health

Rejects the Co-Pay Proposal for ADAP. The Budget Act provides full funding for the AIDS Drug Assistance Program (ADAP), and rejects the Governor's proposal to have clients share in the cost of the program by making a small co-payment. Under the Governor's proposal, ADAP clients would make

co-payments for each prescription based on their annual income, and co-payments would not be required for those with incomes at or below 200 percent of the federal poverty level. In January, the Governor proposed co-payments of \$30, \$45, and \$50 per prescription; in his May Revision, the Governor reduced these co-payments to \$5, \$10, and \$15. The Budget Act will result in increased budget-year expenditures of \$1.4 million General Fund. Funding for the ADAP has increased 62.8 percent since the Budget Act of 1999. ADAP serves about 26,000 clients, and individuals earning less than \$50,000 per year are eligible to receive a full range of drug therapies. The Budget Act also assumes additional ADAP drug rebates of almost \$9 million in the budget year, which may result in a General Fund deficiency next year if the rebates are not collected.

Provides Funding for Trauma Care Centers. The Budget Act provides \$4.9 million in federal funds expenditure authority for private trauma care centers and assumes that no budget trailer bill language is needed to implement this action.

Provides Funding For Valley Fever Research and Vaccine Development. The Budget Act includes \$750,000 General Fund to continue this program.

Provides Funding For Cancer Research. The Budget Act includes \$3,125,000 to augment cancer research activities conducted by the University of California.

Healthy Families Program

Expands Healthy Families to 300 Percent of Federal Poverty for Some Infants -- AIM Merger. The Budget Act approves the consolidation of the Access for Infants and Mothers (AIM) Program in order to enroll infants into the Healthy Families Program at birth. This consolidation will be effective July 1, 2004; therefore, no costs are reflected in the budget year. Because the Healthy Families Program is currently limited to children in families at or below 250 percent of the federal poverty level, the consolidation of AIM will create an additional "state-only" component to cover infants between 250 and 300 percent of the federal poverty level. AIM provides health insurance coverage to uninsured women during pregnancy and up to 60 days postpartum and covers their infants up to two years of age. Eligibility is limited to 300 percent of the federal poverty level, and AIM subscribers must pay a contribution equal to 2 percent of the family's annual income (average of \$790), plus \$50-\$100 for the infant's second year of coverage. Premiums and co-pays are much lower in the Healthy Families Program, and services are more comprehensive. The AIM consolidation will free up resources to continue to fund AIM as though it were an entitlement.

Developmental Services

Recognizes Loss of Title XX Federal Funds. The Budget Act includes a General Fund increase of \$99.8 million because the Department of Social Services can no longer transfer federal Title XX welfare reform (TANF) funds to the Department of Developmental Services (DDS) for Regional Center clients. Federal law requires these funds to be used to provide services to those with annual incomes at or below 200 percent of the federal poverty level. DDS does not collect income data because its services are an entitlement regardless of income and resources; therefore, there is no way to ensure the federal funds are used for lower-income populations. This situation could change in the future if DDS develops a program to charge parents a co-payment for Regional Center services, a proposal that may be reconsidered next year.

Rejects Parental Co-Payment. The Budget Act includes a General Fund augmentation of \$14.7 million and rejects the Governor's proposal to require parents to make a co-payment for services. The Governor had proposed that parents whose children are between the ages of three and seventeen and who live at home with them be required to make a co-payment for services provided through the

Regional Center system. This would have affected families earning more than 200 percent of the federal poverty level.

Rejects Implementation of Statewide Standards. The Budget Act rejects the Governor's proposal to implement statewide standards for the Purchase of Services in order to achieve efficiencies. These standards would have resulted in annual General Fund savings of \$100 million. The Administration did not submit any proposals that would reduce or eliminate the Lanterman entitlement. The Budget Act does include a \$10 million unallocated reduction to the Regional Center budget.

Mental Health

Imposes a Five-Percent Rate Reduction. The Budget Act implements a 5-percent reduction in rates paid to mental health managed care plans, for General Fund savings of \$11.5 million.

Human Services

Department of Aging. The Budget Act includes:

- A \$2.7 million General Fund reduction to the Senior Companion Program (\$1.5 million), Foster Grandparent Program (\$1.1 million), and Respite Registry Program (\$135,000); and
- An \$800,000 General Fund redirection from the Senior Wellness and Prevention Media Campaign to the Senior Nutrition Program.

Department of Alcohol and Drug Programs. The Budget Act includes:

- A \$5.8 million General Fund augmentation for increased Regular Drug Medi-Cal and Perinatal Drug Medi-Cal caseload;
- A \$3 million General Fund augmentation to restore funding for the Drug Court Partnership Program. This restoration of funding was contingent on courts saving money through avoidance of prison days. The courts avoided 80,000 days and saved \$10.8 million, so the restoration is warranted;
- A \$2.3 million General Fund augmentation to restructure drug courts and generate \$9.6 million General Fund savings in the Department of Corrections; and
- An \$11.5 million General Fund reduction to discretionary programs by lowering expenditures to federal maintenance-of-effort level.

Department of Rehabilitation. The Budget Act includes:

- A \$2.7 million General Fund reduction by reducing Work Activity Program provider rates by 5 percent; and
- A \$1.5 million General Fund reduction by reducing Supported Employment Program provider rates by 2.5 percent.

Department of Community Services Development. The Budget Act includes a \$2.9 million General Fund reduction by eliminating the Naturalization Services Program.

Department of Child Support Services. The Budget Act provides \$2.6 million to continue Foster and Kinship Care Education through the California Community Colleges and requires counties to pay a 25-percent share (over \$51 million) of federal penalties assessed for the state's failure to implement an automated system. The Budget also includes:

- A \$2.5 million General Fund augmentation and 23 positions to improve the accuracy of support orders and collection of arrears owed to families and the state. The augmentation will generate \$39.2 million in additional General Fund revenues;
- A \$1 million General Fund augmentation to improve enforcement of medical support orders and generate at least \$5.2 million General Fund savings in the Medi-Cal program; and
- A \$7.3 million General Fund reduction due to increased federal performance incentive funding.

Department of Social Services. The Budget Act provides \$14 million General Fund to continue the Statewide Fingerprint Imaging System that helps detect and deter fraudulent welfare and food stamp claims. According to the Department, the system generates over \$60 million General Fund savings annually. The Budget funds the June 2003 cost-of-living adjustments (COLAs) for California Work Opportunity and Responsibility to Kids (CalWORKs) and Supplemental Security Income/State Supplementary Payment (SSI/SSP) program grants. The Budget also fully funds CalWORKs caseload while maintaining spending at the federal maintenance-of-effort level. In addition, the Budget includes:

- A \$15.9 million General Fund augmentation to continue implementing the Electronic Benefit Transfer system;
- A \$6 million General Fund augmentation to implement quarterly reporting for CalWORKs and food stamps;
- A \$1.6 million General Fund augmentation to provide transitional food stamps for families leaving CalWORKs;
- A \$104 million General Fund reduction by suspending the January 2004 COLA for SSI/SSP;
- A \$94 million federal Temporary Assistance for Needy Families (TANF) funds reduction by suspending the October 2003 COLA;
- An \$11 million General Fund reduction by using CalWORKs federal TANF funds to offset General Fund expenditures in Child Welfare Services;
- A \$7 million General Fund reduction by financing hardware purchases for the Child Welfare Services/Case Management System. The Budget proposes to purchase the hardware on credit, rather than paying cash. By financing the hardware purchase over several years, rather than paying the entire cost in one year, the state would generate General Fund savings in 2003-04;
- A \$10.1 million General Fund reduction by increasing fees for licensed adult care, child residential care, child care, foster family, and senior care facilities (\$7.3 million) and removing the exemption from FBI fingerprinting fees for small facilities (\$2.8 million);
- A \$5.6 million General Fund reduction by streamlining and targeting annual reviews of facilities; and
- A \$3.8 million General Fund reduction by increasing fees paid for adoptions.

Labor

Employment Development Department. The Budget Act includes:

- A \$13.6 million augmentation and 255 positions to implement the Family Temporary Disability Insurance Program (FTDIP). SB 1661 (Chapter 901, Statutes of 2002) requires employers to provide employees, through the FTDIP, up to 6 weeks of paid leave to care for a seriously ill child, spouse, parent, or domestic partner, or to bond with a new child;
- An \$88.9 million reduction in federal Workforce Investment Act funds;

- A \$3 million redirection from Labor Market Information studies to the Employment Training Panel for job training services;
- A \$35 million redirection from the Employment Training Panel to CalWORKs. The Budget uses Employment Training Tax funds to offset General Fund expenditures in CalWORKs;
- Budget bill language to allow the Department to use up to \$85 million in Reed Act federal funds to upgrade the unemployment insurance automated system to improve continuing claims, call center, and fraud prevention activities; and
- Supplemental report language requiring the Department of Social Services and Employment Training Panel (ETP) to report on the feasibility of returning the ETP allocation from CalWORKs to ETP and providing training services to CalWORKs recipients through ETP directly.

Department of Industrial Relations, Workers' Compensation. The Budget Act *increases employer fees* for workers' compensation program administration from 20 percent to 100 percent for 8 months in 2003-04, generating \$54.2 million General Fund savings. The fee increase would partially fund a \$7.6 million augmentation to implement system reforms required by AB 749 (Chapter 6, Statutes of 2002). AB 749 increased workers' compensation benefits and required structural reforms to the workers' compensation system. The Budget also includes:

- An \$18 million General Fund reduction by shifting funding for the Uninsured Employers Program to the State Compensation Insurance Fund (SCIF);
- A \$12 million General Fund reduction by shifting funding for the Subsequent Injuries Program to SCIF;
- Budget bill language allowing the Department of Finance to loan General Fund to the Workers' Compensation Administration Revolving Fund when receipts to the fund are delayed. The language is tied to the *fee increase*. Since the program would be funded entirely by fees and the would not materialize until mid-year (January and April), the Department of Industrial Relations needs a loan to meet cash flow until revenues are received; and
- Control Section language allows the Department of Finance to reduce Workers' Compensation budget appropriations to reflect savings achieved from reforms.

Veterans' Affairs

Department of Veterans Affairs. The Budget Act includes:

- A \$1.7 million General Fund reduction by closing the Barstow Home skilled nursing facility. The reduction is partially offset by an augmentation of \$357,000 General Fund to convert intermediate care facility beds at Chula Vista home to skilled nursing facility beds; and
- A \$1.5 million General Fund reduction by reorganizing functions at the Yountville Home.

Transportation

Proposition 42. Enacted by the voters in the March 2002 election, Proposition 42 dedicates sales tax revenues from gasoline to funding transportation projects. Specifically, Proposition 42 required the transfer of all gasoline sales tax revenues from the General Fund to a newly created Transportation Investment Fund (TIF). The Department of Finance estimates this amount to be approximately \$1.145 billion in fiscal year 2003-04. In January, the Governor proposed to suspend the transfer and retain the entire \$1.145 billion in the General Fund. In his May Revision, the Governor relented and proposed to transfer \$207 million of the \$1.145 billion to the TIF, and retain the remainder (\$938 million) in the General Fund. Although the May Revision would have provided more transportation funding than the

Governor's original proposal, all of the \$207 million was earmarked for the Governor's pet Traffic Congestion Relief Plan (TCRP). No funding would have been allocated for projects included in the State Transportation Improvement Plan (STIP), which the regional agencies had identified as their top priorities.

In the final budget, Senate Republicans were successful in mitigating cuts to transportation. Specifically, the TIF would receive a total of \$289 million for fiscal year 2003-04, with \$100 million allocated to regional priority projects in the STIP, and \$189 million for the TCRP. The remainder of the gasoline sales tax (\$856 million) would be retained in the General Fund to help close the deficit gap. Related trailer bill legislation was adopted to repay the \$856 million, with interest, by June 30, 2009. However, repayment cannot be guaranteed due to the state's uncertain fiscal future and because legislation to forgive repayment could be enacted at a later date by a simple majority.

State Highway Account Loan Repayment. The Budget Act includes early payment of a loan from the State Highway Account to the General Fund in the amount of \$173 million. The loan was initiated in 2001-02 and is due by 2004-05. Provisions in the Budget Act would (for budgeting purposes) reflect this expenditure in the prior year.

Public Transportation Account (PTA) "Spill-Over" Funds. The Budget Act adopts the Governor's proposal to eliminate a \$87 million transfer to the PTA and retain this amount in the General Fund for non-transportation purposes. However, the Governor's budget bill language was deleted so that revenues in excess of \$87 million would be transferred to the PTA. Current law contains an arcane formula that requires the General Fund to transfer sales tax revenues to the PTA under specified conditions. This transfer is often triggered during periods of high gasoline prices and is used to fund rail and mass transit projects. The proposal does not set a precedent – similar proposals have been adopted in the past.

Caltrans Project Delivery Staffing. The Budget Act reduces the Governor's proposal for staffing by \$18 million, from \$147.9 million and 1,648 positions to \$129.9 million. These positions provide project design, planning and oversight support. These funds were redirected to the State Highway Account for construction projects.

Consolidation of transportation agencies

- The High Speed Rail Authority is responsible for planning the development and implementation of a high-speed inter-city rail service. The Budget Act adopts the Governor's proposal to reverse the consolidation of the Authority with Caltrans, for an increase in special fund expenditure of \$2 million.
- The Office of Traffic Safety is responsible for distribution of federal funds for various educational programs on traffic safety. The Budget Act rejects the Governor's proposal to consolidate the Office with the Business, Transportation, and Housing Agency, for an increase of \$135,000.

Truck Weight Fees. The Budget Act assumes enactment of trailer bill language that would allow the Administration to increase weight fees on commercial trucks. In 2000, SB 2084 (Polanco) changed the criteria for assessment of commercial truck fees and was supposed to have a net zero fiscal impact on fee revenues. However, collections have been lower than anticipated for various reasons. Hence, the Administration is requesting authority to adjust the fee schedule to make up for the revenue shortfall.

Fee Increases on Motorists. The Budget Act adopts the Governor's fee increases of \$163 million for the Motor Vehicle Account, or MVA. This Account provides funding for support of the California Highway Patrol and the Department of Motor Vehicles. Over the years, depressed MVA fee collections and escalating retirement costs have resulted in a variety of fee increases on California motorists. Last year, fees were increased by \$76 million for the 2002-03 fiscal year and \$98 million for the 2003-04 fiscal year for late vehicle registration, DUI suspension appeals, driver information requests, and driving tests. Again this year, the Budget proposes to increase fees, which are expected to generate \$163

million in additional revenues in 2003-04 and \$333 million in 2004-05. The increases are identified in Table 6.

Table 6

MVA Fee Increases	
(Dollars in Millions)	
Annual vehicle registration base fee	\$41
Vehicle registration surcharge	54
Non-commercial driver's license fee	30
Identification card issuance charge	9
Penalties for failure to file title documents	11
Business Partner Automation fee	2
Various DMV fees	16
Total Fee Increases	\$163

Judiciary / Trial Courts

Judiciary. The Budget Act reduces the Judiciary's unallocated General Fund reduction from \$17.7 million to \$8.5 million and ***adopts the following fee increases that are estimated to generate approximately \$2.0 million annually*** for support of the Judiciary:

- Increase Appellate Filing Fee from \$265 to \$420 plus \$65 for the State Library - \$1.45 million;
- Increase Supreme Court Filing Fee to \$420 - \$290,000; and
- Increase deposit for transcripts in the Court of Appeals from \$100 to \$270 - \$224,000.

Trial Court Funding. The Budget Act reduces the Trial Court's unallocated General Fund reduction from \$116 million to \$85 million, and includes the following ***fee increases that are estimated to generate approximately \$150 million*** annually for deposit into the Trial Court Trust Fund:

- A new \$20 security fee per court filing - \$34 million;
- A new \$25 Court Reporter Fee, which covers all appearances under an hour - \$16.3 million;
- A new \$100 Continuance Fee for all civil and family law cases - \$26.3 million;
- A new \$500 Complex Litigation fee for cases declared complex - \$18.1 million;
- A new Graduated Probate Filing fee for decedent estate proceedings - \$7.3 million;
- Increase the Trial Motion Fee from \$23 to \$33 - \$1.2 million annually;
- Increase the filing fee for limited jurisdiction cases over \$10,000 to \$185 - \$11.7 million;
- Increase small claims fee from \$35 to \$60 for filers of more than 12 cases / year - \$2.4 million;
- Increase the Summary Judgement Motion Fee from \$100 to \$150 - \$760,000; and
- Transfer various undesignated county fees on court-related activities - \$31 million.

In addition, the Budget Act includes the following changes to the Governor's Budget proposals:

- Modifies the Governor's Court Security Flexibility proposal by requiring the Judicial Council to convene a working group on court security and promulgate and implement rules, standards, and

policy direction for the trial courts in order to achieve efficiencies that will reduce security operating costs by \$11 million in the 2003-04 fiscal year, and by \$22 million thereafter; and

- Rejects the Governor's Electronic Reporting proposal authorizing the courts to use electronic reporting, for a net General Fund cost of \$36.5 million.

Commission on Judicial Performance. The Budget Act rejects the Governor's unallocated reduction of \$1.036 million and substitutes an unallocated reduction of \$414,000 to the Commission, for a net General Fund cost of \$622,000.

Local Law Enforcement

Booking Fees. The Budget Act includes \$38.2 million General Fund to reimburse City Police Chiefs for the costs that counties charge cities for booking arrestees into county jails.

Citizens' Options for Public Safety (COPS)/Juvenile Crime Prevention Grants. The Budget Act reduces funding for the COPS/Juvenile Justice Crime Prevention grants by \$32.6 million, leaving a total of \$200 million General Fund divided equally for support of the two programs.

Law Enforcement Technology grants. The Budget Act eliminates funding for the technology grant program, resulting in a General Fund savings of \$18.5 million.

Rural Law Enforcement grants. The Budget Act reflects the elimination of funding for law enforcement grants to 37 rural counties resulting in a General Fund savings of \$18.5 million. However, SB 1044 proposes to restore this funding.

General Government

Tax Proposals

The Budget Act revenue and expenditure estimate totals included the restoration of the full two-percent Vehicle License Fee. The budget estimates reflect the fact that the Director of Finance "pulled the trigger" in late June, which eliminated the 67.5 percent "offset" and restored the car tax to its 1998 level of two percent. This was done administratively without a 2/3 vote of the Legislature. This action resulted in a \$4.2 billion tax increase on motorist in the state.

The January Governor's Budget and the May Revision both included tax increase proposals totaling approximately \$8 billion. The specifics of the Governor's tax proposals were changed at the May Revision, but only the car tax increase was included as part of the final budget adopted by the Legislature. Table 7 shows how the various tax proposals evolved from January to the final Budget Act.

Table 7

Major Tax Increases Comparison of January, May and Budget Act				
(Dollars in Millions)				
Provision	January	May	2003 Budget Act	Change
Restore PIT Top Bracket	\$2,580	\$1,560	\$0	-\$2,580
Sales and Use Tax Increase	4,584	1,742	0	-4,584
Increase Tobacco Tax	1,170	267	0	-1,170
Vehicle License Fees	0	4,183	4,183	4,183
Teacher Tax Credit	0	175	0	0
Total	\$8,334	\$7,927	\$4,183	-\$4,151

Department of Personnel Administration. The Budget Act includes General Fund savings of approximately \$4 million in the Rural Health Care Equity Program as a result of limiting annuitant reimbursements to residents of California.

Employee Compensation (Control Section 4.10). The Governor's Budget directed the Department of Personnel Administration (DPA) to negotiate through the collective bargaining process a reduction of \$855 million in 2003-04 employee compensation expenditures. The Budget Act increases the reduction to \$1.066 billion (\$585 million General Fund) and provides the Director of Finance with the authority to adjust departmental appropriations in order to reflect the implementation of an employee compensation savings plan. Additionally, the Control Section includes a provision requiring the Director of Finance to abolish 16,000 positions in order to ensure that \$1.066 billion of savings is achieved.

State Controller. The Budget Act includes:

- Trailer bill language that reclassifies three Career Executive Appointments (CEA) positions into exempt appointments with no dollar change;
- A \$1 million augmentation in reimbursement authority for the first stage of the Human Resources Management System (21st Century Project). This database management system will replace the existing employment history, payroll, leave accounting and position control systems that are 30 years old and desperately in need of upgrading. The action included eight limited-term personnel years;
- A net augmentation of \$853,000 (\$12,000 General Fund and \$841,000 in reimbursements) to fund an estimated 3.2 million warrant / remittance advice production volume increase over 2002-03. The additional volume is primarily related to the following programs: IHSS, Medi-Cal, PERS and STRS;
- Trailer bill language to eliminate interest payments on unclaimed property returned by the state to the rightful owners. This proposal will result in \$7.4 million in General Fund savings, assuming current interest rates; and
- \$500,000 in unexpended current-year funds budgeted for local mandate audits for more local mandate audits in 2003-04. This action was taken in lieu of the Administration's proposal to reappropriate these funds for Community College concurrent enrollment practices audits.

Secretary of State. The Budget Act includes:

- A \$200,000 augmentation to fund excess vacant positions;
- \$6.5 million to continue funding for phase 2 of the Business Programs Automation Project; and

- A \$991,000 augmentation, including 16 personnel years, to meet increased workload requirements related to corporate filings of statements of information.

Office of Planning and Research. The Budget Act eliminates all funding for the Cesar Chavez Day of Learning Grants, for a General Fund savings of \$5 million in 2003-04.

Department of Fair Employment and Housing. The Budget Act restored \$2.2 million of the \$3.1 million and 45 personnel years proposed for elimination in the Governor's January budget.

Franchise Tax Board (FTB). The Budget Act:

- Includes an \$11.8 million reduction in project funding for the Integrated Non-filer Compliance Project due to project completion;
- Includes a \$2.8 million augmentation including 56 personnel years to accommodate additional workload associated with real estate withholding taxes;
- Rejects the Administration's proposal to impose fees on candidates, lobbyists and political committees and backfills the General Fund with a \$1.4 million augmentation to pay for the Political Reform Audit program; and
- Assumes trailer bill language that reduces the liability threshold from \$200 to \$100 for the Integrated Non-filer Compliance program and augments the FTB budget by \$800,000. This results in a \$4.4 million revenue increase to the General Fund.

Department of General Services. The Budget Act:

- Assumes trailer bill language to extend by one year, the authority of state departments to contract with outside vendors for printing services;
- Includes a \$2 million augmentation for Capitol Security activities. An additional \$2 million is to be provided from the State Assembly operating fund to make a total budget increase of \$4 million for Capitol security;
- Includes a \$4 million augmentation for court reporter services at administrative hearings; and
- Includes a Control Section revising how the state would contract for goods and services. The estimated savings is \$100 million, according to the Legislative Analyst's Office (LAO).

Consumer Affairs. The Budget Act includes:

- A \$2.7 million augmentation and 23 personnel years for the Bureau of Automotive Repair to expand the Enhanced Smog Check Program into the San Francisco Bay Area;
- Over \$31 million in loans from various Department of Consumer Affairs special funds to the General Fund; and
- A net reduction of \$4.4 million in various funds for all Bureaus within the Department and a net increase of \$5.2 million in various funds for the regulatory boards.

Business, Transportation and Housing Agency (BT&H)

The Budget Act, in conjunction with AB 1757 (Budget Trailer Bill) moves several programs from the Trade and Commerce Agency (TCA) to the BT&H Agency. This is being done as part of the sunset of the TCA. The programs being moved to the BT&H Agency include the following:

- Small Business Expansion program;
- Film Commission - film permitting only (\$1.22 million General Fund);
- Manufacturing Technology Program;
- Tourism (fee-paid positions to assess the industry);
- Authority to oversee the privately funded Armenian Trade Office; and

- Infrastructure Bank.

All funding for these programs are being transferred from the TCA.

Department of Alcoholic Beverage Control. The Budget Act includes a \$650,000 and 19 personnel-year augmentation at the request of Senator Chesbro for additional enforcement.

Department of Corporations (DOC). The Budget Act:

- Rejects a May Revision proposal to augment the DOC budget by \$4 million for the Statewide Outreach on Predatory Practices program and instead transfers these funds to the General Fund. It also adopts a May Revision proposal to transfer \$40 million from the State Corporations Fund to the General Fund, for a total transfer the General Fund of \$44 million; and
- Rejects the Administration's proposal to consolidate the Office of Real Estate Appraisers with the DOC.

Department of Housing and Community Development (HCD). The Budget Act:

- Includes a \$180,000 augmentation to fund the Military Base Reuse Office, which is being transferred to HCD from the Trade and Commerce Agency;
- Augments the Emergency Housing Assistance Grants by \$1.3 million compared to the Governor's January proposal;
- Rejects the \$625,000 rent increase for the Office of Migrant Services Program and backfills it with General Fund;
- Rejects the \$721,000 employer fee increase for Employee Housing Program and backfills it with General Fund;
- Funds a Migrant Services Center Rehabilitation project in Merced County with Proposition 46 bonds funds and includes a trailer bill to clarify the use of the bond funds for this project;
- Includes a May Revision proposal to transfer \$39.75 million from the Self-Help Housing Fund (SHHF) and the Housing Rehabilitation Loan Fund (HRLF) to the General Fund for projects that will now be funded from Proposition 46 Housing Bond Funds. There is trailer bill language clarifying HCD's authority to use the bond funds for this purpose;
- Includes a May Revision proposal to transfer \$16.7 million from the SHHF and HRLF to the General Fund. These funds were for projects that have been delayed and can compete for housing bond funds if they meet the necessary requirements; and
- Includes a loan \$31.68 million from the Housing Rehabilitation Loan Fund to the General Fund. The loan contains the standard repayment provisions including interest.

Trade and Commerce Agency

The Budget Act, in conjunction with AB 1757 (Budget Trailer Bill), implements the sunset of the Technology, Trade and Commerce Agency (TCA). Many of the TCA functions and programs are being eliminated completely, while other functions are being transferred to other departments. The cuts and eliminations include the following:

- Eliminates the Film California First program subvention for a \$8 million General Fund savings. \$1.2 million necessary for the continuing operation of the Film Permit Office is being transferred to the Business, Transportation and Housing Agency;
- Eliminates all state funds for the Tourism Program, for a General Fund savings of \$2.5 million. Retains approximately \$900,000 in industry-reimbursed funds for several staff positions to continue the program at a reduced level. This function is being moved to the BT&H Agency as part of the TCA sunset;
- Eliminates all ongoing funding for foreign trade offices, but leaves an appropriation of \$1 million for closing costs. The net General Fund savings is \$2.4 million with ongoing savings of \$3.4 million;

- Eliminates California Technology Investment Program, for General Fund savings of \$2 million; and
- Includes a May Revision Finance Letter proposal to restore \$2.1 million in funding and one position for the Manufacturing Technology Program with funds from the Employment Training Fund. This function is being transferred to the BT&H Agency as part of the TCA sunset.

The programs that will continue to operate, but which are being transferred to other departments include the following:

- Small Business Expansion program to the BT&H Agency;
- Film Commission - film permitting only (\$1.22 million General Fund) to the BT&H Agency;
- Manufacturing Technology Program to the BT&H Agency;
- Tourism (fee-paid positions to assess the industry) to the BT&H Agency;
- Authority to oversee the privately funded Armenian Trade Office to the BT&H Agency;
- Infrastructure Bank to the BT&H Agency;
- Military Base Reuse (\$180,000) moved to the Department of Housing and Community Development; and
- Underground Storage Tanks moved to the State Water Resources Control Board.

Arts Council. The Budget Act eliminates \$11 million in General Fund from the Arts Council, leaving the Arts Council with \$1 million in General Fund and some miscellaneous special funds.

Indian Gaming. The Budget Act includes a reduction in the anticipated revenue from Indian gaming in the budget year, which has been revised downward from \$1.5 billion to \$680 million.

Local Government

Low- and Moderate-Income Housing. The Budget Act rejects the transfer of unencumbered low- and moderate-income housing funds to the state. The Governor's Mid-Year Spending Reduction Proposal would have shifted up to \$500 million in annual property tax increment to the General Fund.

Redevelopment Property Tax. The Budget Act adopts the Governor's proposal to capture \$250 million in redevelopment property tax increment in 2003-04 and redirect those funds into local schools. Assembly amendments would reduce the \$250 million to \$135 million. These amendments are expected to be taken up in late August.

½ Cent Sales Tax Swap / ERAF Backfill. The Budget Act, in conjunction with two budget trailer bills, implements a ½ cent sales tax swap with local government to create a new state revenue source to pay off the deficit reduction bond. Local governments are backfilled the lost sales tax through the ERAF. The ERAF backfill will provide local governments with a "dollar for dollar" reimbursement that will grow over time at the same rate as sales tax growth occurs in individual jurisdictions.

VLF Backfill Funds. The Budget Act includes the May Revision proposal to make local governments absorb up to \$825 million in lost VLF backfill funds as a result of the time lag between the "trigger" being pulled and when the new revenue actually starts being collected. A budget trailer bill provides that this local government reduction shall be treated as a loan to be repaid with interest by 2006. The January Budget proposed to eliminate the VLF backfill to cities and counties effective February 1, 2003 for a current-year savings of \$1.27 billion and, budget-year savings of \$2.9 billion. The May Revision assumed that the VLF trigger would be pulled, and \$3.1 billion in taxes are raised in 2003-04 and \$4.3 billion in 2004-05, thus relieving the General Fund of the future backfill liability.

Williamson Act Subvention. The Budget Act fully funds the Williamson Act Subvention at \$40.1 million. The January Budget proposed to eliminate the Williamson Act subvention effective July 1, 2003.

State Mandates. The Budget Act enacts most of the May Revision proposals to either suspend, defer or eliminate state mandated local programs.

Business Inventory Taxes. The Budget Act assumes trailer bill language that ends the \$900,000 in special subventions to redevelopment agencies for business inventory taxes.

Appendix 1 – Fees Table

Annualized Fees Included in the Budget Act (including related trailer bills)	
(Dollars in Thousands)	
	Budget Act
<u>Education</u>	
Community college tuition	\$110,000
Community college facilities plan fee	<u>240</u>
Subtotal, Education	\$110,240
<u>Business</u>	
Air pollution permitting fee	\$14,400
Pesticide permitting/licensing & examination	6,300
Waste water discharge permitting	20,420
Workers' compensation administration	81,000
Social services licensing (foster care homes, child care facilities, senior care facilities)	7,300
Fingerprinting fees for licensed care facilities	2,800
Dam safety fees	7,200
Commercial vehicle weight fees	160,000
Power plant siting & annual fee -- \$100,000 to \$450,000 per siting; and \$15,000 annual fee	615
Water rights fees -- \$110 to \$36,000 per permit; \$100 to \$30,000 per license	4,399
Mining operations reporting fee -- doubles fee to \$4,000; increases collection cap from \$1.2 million to \$3.5 million	2,300
Timber fee equal to 4-percent of the total timber yield	10,000
CALFED water user fee	<u>Unknown</u>
Subtotal, Business	\$316,734
<u>Consumer</u>	
Trial court fees (filing motions, security, etc.)	\$150,000
Appellate filing fee	2,100
Public safety surcharge on intrastate telephone usage	-0-
Youth Authority – sliding scale inflation adjustment	6,000
HCD employee housing enforcement	0
HCD migrant services	0
Fishing, hunting license	4,200
Park use fees	20,000
California State Library service fee	1,000
Earthquake insurance policy fee	884
Veterans' medical care	0
DMV fees	333,000
Fire protection fees on state responsibility areas	<u>52,500</u>
Subtotal, Consumer	\$569,684
Grand Total	\$996,658

Note: The Budget Act assumes implementation of these fee increases. However, enabling legislation for the majority of fee increases related to environmental regulation is yet to be acted upon by the Legislature.

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